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Uganda: Policy, Participation, People

When the government of President Museveni assumed power in Uganda in 1986, it took over a shattered post-war economy. Market-oriented reforms led to a remarkable recovery. International Development Association (IDA) operations in Uganda initially tackled economic recovery, rehabilitation, and stabilization, then turned slowly to institutional and private sector development as the country stabilized. Since 1995, IDA has focused on poverty reduction and social progress.

An OED (Operations Evaluation Department) assessment of IDA assistance to Uganda during 1987-99 found that IDA has excelled at policy dialogue, economic and sector work (ESW), and fostering participatory processes; had signal success in mobilizing resources and debt relief; and broadened the stakeholder dialogue on aid coordination. There is room for improvement, however, in some aspects of project implementation.

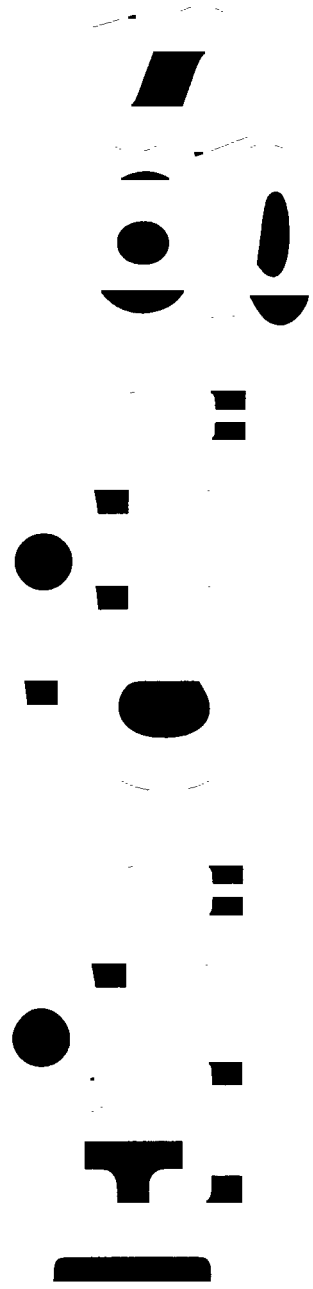
The Bank and other donors were involved on a very high plane in Uganda, and important successes were achieved, partly because of the government's strong political leadership, its eagerness to learn from experience, its good use of technical assistance in core government agencies, and its recognition

of the need to deepen its commitment and broaden the ownership of reform.

Reforms helped place Uganda among the top economic performers in Africa in growth and inflation control. Growth and reallocation of expenditures to the social sectors helped reduce absolute poverty significantly, and its poverty eradication, universal primary education, and Poverty Reduction Strategy Paper programs serve as best practice for other IDA countries. But health indicators remain poor, gender inequities are still stark, and economic disparities have deepened between urban and rural areas, geographic regions, and cash and food crop farmers. Corruption, disturbances in the north, and Uganda's military entanglements with its neighbors threaten the sustainability of past rates of growth and poverty reduction.

Uganda's recovery

When Uganda's civil war ended in 1986 and the government of President Museveni assumed power, it took over an economy that faced overwhelming challenges. Initially, not all policymakers were convinced that stabilization and market-oriented adjustment were correct, and attempts to constrain



budget expenditures were undermined by lax controls. An increase in public spending in fiscal 1992 combined with a sharp fall in coffee prices pushed the budget deficit to 14.4 percent of GDP. Broad money expanded, inflation soared to an annualized 230 percent, donors cut back on aid, and IDA and the International Monetary Fund (IMF) delayed assistance.

The president changed his economic team and reaffirmed his commitment to stabilization. Fiscal 1992 marks a great divide in the government's ownership of reform. After the 1992 crisis the monopoly marketing arrangements for agricultural commodities—especially coffee, tea, and cotton—were gradually dismantled and foreign exchange allocations became more market-oriented. Uganda's trade regime became one of the most liberal in Africa. Fiscal policy was strengthened with the adoption of cash budgeting, revenue measures, improved tax administration, and strong donor support. GDP grew, inflation declined, and the rate of private investment almost doubled over the decade. Although growth led to a significant decline in absolute poverty, the share of the rural poor increased, to slightly over 95 percent of the poor in Uganda.

Participatory poverty reduction

Absolute poverty fell 21 percent between fiscal 1992 and 1998, but 44 percent of the population remained poor. Poverty, which is overwhelmingly rural, is concentrated among food crop farmers and women, and in Uganda's northern and eastern regions. Realizing that broad-based growth was not doing enough to reduce poverty, in 1995 Uganda adopted a Poverty Eradi-

cation Action Plan (PEAP) to maintain growth-promoting macroeconomic policies; encourage sufficient broad-based growth to benefit the poor (especially in agriculture); provide social infrastructure; create the capacity for a quick response to shocks; build a just, secure, and tolerant social order; and promote balanced regional development. Uganda also took steps to address gender bias. IDA built on the openness to participation evinced by Uganda and on the experience of the participatory approaches to the PEAP. IDA's country assistance strategy for 1995 was developed through extensive consultations with stakeholders. This participatory process—conducted jointly with the government, with technical support from the United Kingdom—broke new ground and was widely appreciated in Uganda. Participation has become almost routine in preparing lending operations, and has become an ongoing means of eliciting information on poverty trends in Uganda. It also plays a major part in OED's evaluation of IDA's country assistance. (Part 2 of OED's evaluation is titled *Voices of Stakeholder*, quoted throughout this article.)

IDA's performance

Deployment of products and services

Nonlending services. In deploying Bank products and services, IDA has excelled at both policy dialogue and ESW, which has been highly participatory, drawing broadly on resources in Uganda and from donors and the Bank. ESW has been successful in sharpening Ugandan awareness of neglected issues and in creating donor interest. IDA's strategy could have been more fo-

cused, but its reform objectives have been consistent with those of the government, and there has been close and continuous cooperation between the government and IDA since 1987.

Bank lending. OED rated outcomes satisfactory for about 63 percent of IDA-supported projects. Roughly a quarter of IDA's projects and lending led to substantial institutional development. OED ratings for outcomes and institutional development in Uganda were at least as good as the average ratings for Africa, but poorer than average ratings for the Bank and IDA overall. Outcome ratings for education, finance, public sector management, telecommunications, transport, and urban development were better than the averages for both IDA and Africa. Overall, outcomes for IDA's Uganda program were satisfactory and IDA's contribution to institutional development was modest. But given the many risks clouding Uganda's future—especially corruption, disturbances in the north, and Uganda's military entanglements with its neighbors—the sustainability of past rates of growth and poverty reduction is uncertain.

IDA's program slowed during fiscal 1995–96—lending declined, the shift to sector strategies proved difficult, following through on findings from economic and sector work took time, and reorganization of the Africa Region took its toll—but the program has now regained momentum. Overall, IDA's use of its non-lending and lending sources was satisfactory.

Macroeconomic reform. IDA has excelled at macroeconomic reform

through adjustment lending. Its successive adjustment operations and technical assistance credits—aimed initially at economic recovery, rehabilitation, and stabilization—were relevant and their overall outcome was highly satisfactory. Working together, the government, IDA, and the IMF managed to get the needed macroeconomic and coffee reforms, and IDA has been central in repairing the macroeconomic environment to the benefit of both private and public sector development.

Institutional and private sector development. IDA's operational support for institutional development has spanned budget reform, capacity building, civil service reform, decentralization, and governance. Budget reform efforts were highly relevant and satisfactory in outcome and critical to maintaining macroeconomic stability. Efforts at capacity building and civil service reform yielded mixed outcomes because of inadequate pay reform and problems of sequencing, coordinating, and harmonizing diverse reforms and their underlying strategies. IDA initially confined its support of decentralization and governance to capacity building. Only in fiscal 1999 did IDA thoroughly study corruption in Uganda, and in 2000 it approved a local government development program to test alternative mechanisms for delivering services and devolving the development budget.

IDA's program for improving the policy environment for private sector development has been highly relevant, as has its support for privatizing public enterprises and reforming the financial sector. But outcomes have been only partly satisfactory because of either po-

CODE Response

The Committee on Development Effectiveness (CODE) welcomed the timing of the CAE, as well as the participatory approach used to capture stakeholder perceptions of the Bank's assistance, and noted Management's broad concurrence with OED's recommendations. The Committee also voiced support for the report's main recommendations, while emphasizing the need to increase government accountability and transparency to reduce persistent regional economic disparities and combat corruption. The members noted the impressive improvement in aid coordination and the creation of strong partnerships in-country with donors and between the Bank and the government, and suggested that the positive lessons of the Uganda experience be shared with other countries implementing the CDF. It was also suggested that OED evaluate the quality of partnerships as part of the CAE process. The members noted that IDA assistance appears to be more effective in addressing issues at the macro level than at the sector and project level, and several emphasized the need for more efficient and effective sector-wide approaches. CODE also highlighted the need for progress in privatization and private sector development in general, as well as a more consistent agriculture and rural development policy.

litical interference or lack of enforcement. IDA's efforts to improve infrastructure services for the private sector have been inadequate—partly because of the borrower's slow commitment to sector reforms.

Poverty reduction. From 1995 on, IDA focused on poverty reduction and social progress. To promote these ends, it appropriately relied on growth and reallocations of public spending to the social sectors. The economic gap between urban and rural areas, geographic regions, and cash and food crop farmers has deepened, but rapid growth and IDA-supported reform of coffee and cotton marketing have helped reduce absolute poverty significantly. Social indicators have improved somewhat, but health indicators remain poor and gender disparities enormous.

Next steps

OED recommends that IDA take the following measures. (Stakeholder recommendations are also listed.)

- **The Comprehensive Development Framework (CDF) and aid coordination:** Build on the CDF and be more selective; engage other stakeholders in identifying IDA's comparative strengths; restrict new initiatives to a few major goals; rely on other donors to support other areas; and help Uganda's government strengthen its aid management.

Stakeholders: The Bank needs to adopt an integrated, holistic approach to sector development (agriculture and infrastructure), governance, and private sector development [an implicit endorsement of the CDF].

• **Efficiency:** Handle procurement and disbursement more flexibly.

• **Poverty Reduction and Social Development:** To sustain poverty reduction, IDA should determine its niche within a more comprehensive assistance strategy for rural development. It should help map the regional, economic, social, and gender characteristics of the poor so government can clarify its priorities and refine its approaches. Much remains to be done to diversify agriculture out of the food crop sector and extend the reach of commercial agriculture; increase productivity and employment; implement tenural reform; expand roads, research, and the extension network; restore rural finance networks; and identify export crops that need “market and trade facilitation.”

Stakeholders: To eradicate poverty, the Bank should focus on reducing disparities (urban and rural, regional, and gender), targeting the very poor, and plugging leaks in service delivery by transferring delivery to the private sector.

• **Institutional Development:** IDA should take a stronger stance on governance, coordinate major efforts at institutional reform, and promote monitoring and evaluation so that Uganda can develop a culture that values transparency, accountability, and results.

Stakeholders: To promote governance, transparency, and accountability, the Bank needs to be more transparent about its own agenda. It should enlist allies in civil society in its fight against corruption by involving stakeholders in independent monitoring and evaluation of Bank programs. The Bank needs to stand tall in promoting enforcement of the prosecution and punishment of corruption.

• **Private Sector Development:** With the help of its partners, IDA should encourage the government to push ahead with infrastructure development, especially in power, transport, and urban development (industrial space and water and sanitation), to close the gap between needs and resources. It should encourage progress on competition, private sector participation, and regulatory reform.

Stakeholders: Liberalization of markets is necessary but not sufficient for private sector development. Future development of Uganda’s private sector is predicated on massive investments in infrastructure, efficient and transparent privatization, an expanded role for the private sector (including NGOs) in the provision and financing of public goods, financial sector reform, and a regulatory framework that fosters competition.

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